



Stockland

Stockland Direct Office Trust No.3 (SDOT3 or Trust)



75 George Street is a six level, twin tower, commercial office building. There are two retail areas on the ground floor, with basement and covered parking for 103 spaces. The property is located in the heart of the Parramatta CBD on the high profile corner of Smith and George Streets. The Parramatta bus/rail interchange and RiverCat Wharf are also within close proximity of the property.

While difficult market conditions have significantly impacted the performance of your Trust over recent years, we are pleased to report an improvement in performance of the portfolio for the six months to 30 June 2011. Our capital expenditure program enhanced the value of the properties and aided in the successful retention of a key tenant. Independent valuations were undertaken on all properties resulting in an uplift in the value of the portfolio.

Highlights

- Unit price increased by 11% to \$0.55 cents per unit.
- Occupancy levels improved with the portfolio now 100% occupied.
- St. George Bank, the major tenant at 75 George Street, Parramatta, exercised its option to remain in the building for an additional five years beyond its current lease expiry.
- We are now considering the future of the Trust to achieve the best outcome for investors.

Trust performance

The Trust provided investors with a total return of 11.26% for the period. This increase was underpinned by an increase in the portfolio value. No distribution was paid over the period, due to the Trust's requirement to maintain cash reserves to fund future capital expenditure requirements.

Portfolio update

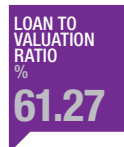
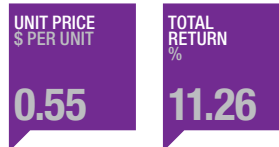
Through good management of leasing risk, the team have now mitigated the risk in three of the portfolio's four properties. As a result, the possible sale of one or more of the properties can now be considered.

At 181 Great Eastern Highway, Belmont, capital works required under the new lease to NRW Holdings Limited are well underway. All bathrooms have been refurbished and the replacement of the air conditioning system and lift cars has commenced. Works are expected to be completed by December 2011, with the works to date resulting in the property value increasing to \$17 million as at 30 June 2011.

St. George Bank, the major tenant at 75 George Street, Parramatta, has exercised its option to remain in the building beyond their current lease expiry and until at least 2017. This resulted in the property value increasing to \$32.6 million. The property has 100% occupancy, with Reach Local leasing 458 sqm on level one. The staged capital works program to upgrade the air conditioning system and lifts remains on track for completion in May 2012.

Management continues to focus on reducing future leasing risk at 541 St Kilda Road Melbourne. Discussions are underway with major tenant Seek Ltd whose lease expires in October 2012. A staged upgrade of the air conditioning system continues with an upgrade of the lifts expected to commence in early 2012. The property value remained at \$25 million as at 30 June 2011.

222 Russell Street, Melbourne continues to perform as anticipated. The property value increased to \$13.3 million as at 30 June 2011.



TRUST PERFORMANCE*			
PERFORMANCE	6 MTH %	12 MTH %	INCEPTION % P.A.
Income return	0.00	0.00	5.41
Capital return	11.26	15.71	-13.73
Total return	11.26	15.71	-8.33

* Calculated in accordance with IFSA Standard No. 6.

DEBT*	\$M
LOAN FACILITY	\$60.81
DRAWINGS	\$55.15
INTEREST RATE	8.25%
YEARS TO MATURITY	1.0

* As at 30 June 2011.

Debt update

SDOT3's \$60.8 million facility expires on 27 June 2012. Management has entered into preliminary discussions with the Trust's financier, ANZ Bank, regarding the extension of the facility. There were no additional drawings on the loan facility during the period, with retained cash reserves being used to fund capital expenditure and leasing incentive requirements.

The Trust has a fixed interest rate swap in place until 27 June 2014. The current interest rate, including the line and margin fee is 8.25%.

The Trust's loan to valuation ratio (LVR) improved as a result of the increase in the value of the property portfolio. At 30 June 2011, the LVR was 61.27%, below the 65% maximum allowed by the Trust's financier.

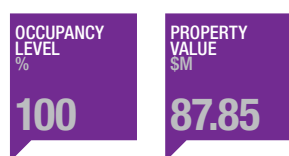
The loan facility offer from Stockland remains in place and expires on 31 August 2012.

Economic update

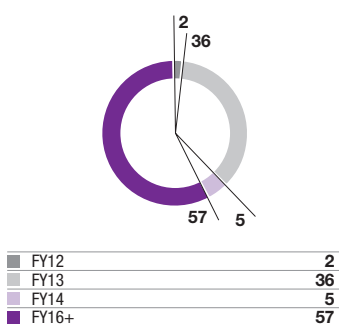
Economic conditions remained challenging over the period. The European financial crisis, ongoing impact of interest rates and uncertainty about the introduction of a price on carbon have undermined the confidence of consumers.

Interest rates remained on hold throughout the period, though the RBA has indicated that inflationary pressures may lead to future increases. Unemployment remained at 4.9%.

The Perth CBD office market continues to grow rapidly, with 132,000 sqm of space under construction and due to complete by December 2012.



EXPIRY PROFILE JUNE 2011 BY AREA %



MAJOR TENANTS BY GROSS INCOME	%
ST GEORGE	25
SEEK	23
NRW	18
WILSON PARKING	13
HANSON CONSTRUCTION	7

KEY PROPERTY STATISTICS AS AT JUNE 2011					
PROPERTY NAME	75 GEORGE STREET, PARRAMATTA	541 ST KILDA ROAD, MELBOURNE	181 GREAT EASTERN HIGHWAY, BELMONT	222 RUSSELL STREET CAR PARK, MELBOURNE	TOTAL
Independent valuation	Jun 2011	Jun 2011	Jun 2011	Jun 2011	
Valuation	\$32,600,000	\$25,000,000	\$17,000,000	\$13,250,000	\$87,850,000
Val rate per sqm	\$3,419	\$3,030	\$4,212	n/a	
Cap rate	9.00%	9.25%	8.50%	8.50%	8.90%
WALE*	5.3	1.4	7.6	3.7	4.2
Major tenant	St George	Seek	NRW	Wilson Parking	
GLA (m ²)	6,485	6,398	4,036	n/a	
Lease expiry	Dec 2017	Oct 2012	Jan 2019	Jun 2015	
Occupancy	100%	100%	100%	100%	

* WALE by area except 222 Russell Street, Melbourne.

Market update

The Perth CBD office market continues to grow rapidly, with over 132,000 sqm of space under construction and due to complete by December 2012. With only 22,600 sqm of prime grade space currently available, there is an expectation that net absorption over 2011 may not reflect the true quantum of demand, as tenants find it difficult to physically acquire quality space. Under the pressure of limited resources, prime gross effective rents in the Perth CBD office market recorded 8.5% growth over the first six months of 2011. Falling incentives accounted for most of the growth and now stand at 12.5%, down from 16.7% in December 2010.

Leasing conditions in the St Kilda Road office market are improving, with vacancy down 1.7% over the June quarter. The St Kilda Road market has been helped by limited supply in the Melbourne office market. Rents indicative of the St Kilda Road market have increased between 1.5% and 2.0% over the six months to June, with demand present in both prime and secondary products.

Gross effective rents now average \$327 per sqm per annum for prime grade space, with investment yields remaining steady between 8.50% and 10.50%.

The Parramatta office market is not expected to see any new supply until 2012 and of the 25,700 sqm under construction, 80% is already pre-committed. This bodes well for the Parramatta office market, which has been slowly improving since the downturn. Prime grade incentives are now beginning to tighten and this should soon be reflected in the secondary grade market. Yields have held steady for the last seven quarters, ranging between 7.75% and 8.50% for prime grade assets, and 8.75% to 10.50% for secondary grade assets.

Source: Jones Lang LaSalle.

Unit Registry

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